

# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 11-K



☒ **ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2006

☐ **TRANSITION REPORT PURSUANT TO SECTION 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-14278



07069328

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

**MICROSOFT PUERTO RICO, INC. 1165(e) SAVINGS PLAN**

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

Microsoft Corporation  
One Microsoft Way  
Redmond, Washington 98052-6399

PROCESSED

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THOMSON  
FINANCIAL

**REQUIRED INFORMATION**

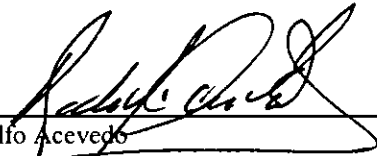
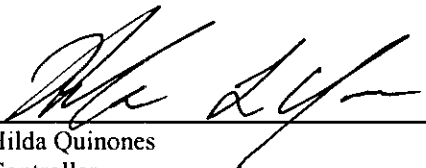
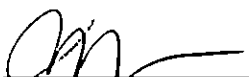
The MICROSOFT PUERTO RICO, INC. 1165(e) SAVINGS PLAN (the Plan) is subject to the Employee Retirement Income Security Act of 1974 (ERISA). Therefore, in lieu of the requirements of Items 1-3 of Form 11-K, the statements of net assets available for benefits as of December 31, 2006 and 2005, and the related statements of changes in net assets available for benefits for each of the three years in the period ended December 31, 2006 and schedules, which have been prepared in accordance with the financial reporting requirements of ERISA, are attached hereto as Appendix 1 and incorporated herein by this reference.

## SIGNATURES

*The Plan.* Pursuant to the requirements of the Securities and Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

MICROSOFT PUERTO RICO, INC. 1165(e) SAVINGS PLAN

Date: June 26, 2007

  
\_\_\_\_\_  
Rodolfo Acevedo  
General Manager  
\_\_\_\_\_  
Hilda Quinones  
Controller  
\_\_\_\_\_  
Mildred Sein Hernandez  
Human Resources Manager

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**MICROSOFT PUERTO RICO, INC.  
1165(e) SAVINGS PLAN**

**FINANCIAL STATEMENTS FOR THE  
TWO YEARS ENDED DECEMBER 31, 2006,  
SUPPLEMENTAL SCHEDULE AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006, AND  
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

# **MICROSOFT PUERTO RICO, INC. 1165(E) SAVINGS PLAN**

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All other schedules required by Section 2520.103-10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 have been omitted because they are not applicable.

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Trustee and Participants of  
Microsoft Puerto Rico, Inc. 1165(e) Savings Plan:

We have audited the accompanying statements of net assets available for benefits of Microsoft Puerto Rico, Inc. 1165(e) Savings Plan (the "Plan") as of December 31, 2006 and 2005, and the related statement of changes in net assets available for benefits for the year ended December 31, 2006. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2006 and 2005, and the changes in net assets available for benefits for the year ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2006 is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This schedule is the responsibility of the Plan's management. Such schedule has been subjected to the auditing procedures applied in our audit of the basic 2006 financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

May 24, 2007

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affixed to original

## MICROSOFT PUERTO RICO, INC. 1165(e) SAVINGS PLAN

### STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS AS OF DECEMBER 31, 2006 AND 2005

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	2006	2005
INVESTMENTS—At fair value	\$2,921,851	\$2,468,733
INTEREST AND OTHER RECEVABLES	<u>3,924</u>	<u>-</u>
NET ASSETS AVAILABLE FOR BENEFITS	<u>\$2,925,775</u>	<u>\$2,468,733</u>

See notes to financial statements.

## MICROSOFT PUERTO RICO, INC. 1165(e) SAVINGS PLAN

### STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS FOR THE YEAR ENDED DECEMBER 31, 2006

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#### ADDITIONS:

##### Net investment income:

Interest and dividends	\$ 60,848
Net appreciation in fair value of investments	<u>225,242</u>

Total net investment income	<u>286,090</u>
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##### Contributions:

Participants	189,094
Employer	<u>75,740</u>

Total contributions	<u>264,834</u>
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Total additions	550,924
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DEDUCTIONS—Benefits paid to participants	<u>93,882</u>
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NET INCREASE	457,042
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#### NET ASSETS AVAILABLE FOR BENEFITS:

Beginning of year	<u>2,468,733</u>
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End of year	<u>\$2,925,775</u>
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See notes to financial statements.

# MICROSOFT PUERTO RICO, INC. 1165(E) SAVINGS PLAN

## NOTES TO FINANCIAL STATEMENTS AS OF DECEMBER 31, 2006 AND 2005 AND FOR THE YEAR ENDED DECEMBER 31, 2006

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### 1. DESCRIPTION OF THE PLAN

The following brief description of the Microsoft Puerto Rico, Inc. 1165(e) Savings Plan (the "Plan") is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

**General**—The Plan is a defined contribution retirement plan covering substantially all employees of Microsoft Puerto Rico, Inc. (the "Sponsor"). The Plan was established effective January 1, 1991. An employee may become a participant in the Plan after completion of six months of service. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). The Plan trustee is Banco Popular de Puerto Rico – Trust Division.

**Retirement Date**—Participants are eligible to receive a retirement distribution upon attainment of age 65. The Plan permits early retirement at age 50 if the employee has at least 10 years of participation in the Plan.

**Contributions**—Each year, participants may contribute up to 10% of their pre-tax compensation, as defined in the Plan, not exceeding the maximum deferral amount specified by local law. The Plan Sponsor contributes 50% of the first 6% of the base compensation that a participant contributes to the Plan.

**Participant's Accounts**—Each participant's account is credited with the participant's contributions and allocations of: (a) the Plan Sponsor's contributions and, (b) Plan earnings. Allocation of Plan earnings is based on the participant's account balance, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

**Vesting**—Contributions become vested as follows:

- **Participant Contributions**—Participant's contributions and accumulated earnings vest immediately.
- **Sponsor Matching Contribution**—Participants become 100% vested after two years of service, upon attainment of age 65, or death or disability while employed by the Sponsor.

**Payment of Benefits**—Upon termination of service due to death, disability or retirement, a participant or its beneficiary may elect to receive either a lump-sum amount equal to the value of the participant's vested interest in his or her account or in periodic installments. For termination of service due to other reasons, a participant may receive the value of the vested interest in his or her account as a lump-sum distribution.

**Plan Termination**—Although the Sponsor has not expressed any intention to terminate the Plan, it has the right to do so. Termination would result in distribution of Plan assets in accordance with ERISA.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting**—The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

**Use of Estimates**—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Plan management to make estimates and assumptions that affect the reported amounts of net assets available for benefits and changes therein. Actual results could differ from those estimates. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

**Investment Valuation and Income Recognition**—The Plan's investments are stated at fair value. Quoted market prices are used to value investments. Shares of mutual funds are valued at quoted market prices, which represent the net asset value of shares held by the Plan at year end. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Management fees and operating expenses charged to the Plan for investments in mutual funds are deducted from income earned on a daily basis and are not separately reflected. Consequently, management fees and operating expenses are reflected as a reduction of investment return for such investments.



***Payments of Benefits***—Benefit payments to participants are recorded upon distribution. There were no unpaid balance for accounts of persons who elected to withdraw from the Plan at December 31, 2005 and 2005.

## **INVESTMENTS**

The following are investments as of December 31, 2006 and 2005 that represented five percent or more of the Plan's net assets:

	<b>2006</b>	<b>2005</b>
Microsoft Corporation common stock	\$ 990,158	\$ 819,436
Vanguard Windsor II Fund	228,831	189,456
Federated Trust U.S. Treasury Obligations Fund	811,685	709,753
Fidelity Advisor Growth Fund	501,016	438,786
Mutual Discovery A Fund	164,456	129,128

Net appreciation (depreciation) in fair value of investments for the year ended December 31, 2006, including gains and losses on investments bought and sold as well as held during the year, was as follows:

Microsoft Corporation common stock	\$ 125,588
Vanguard Windsor II Fund	30,707
Federal Trust U.S. Treasury Obligations Fund	412
Fidelity Advisor Growth Fund	30,348
Columbia Small Cap A Fund	11,545
Mutual Discover A Fund	27,405
PIMCO Total Return Adm. Fund	<u>(763)</u>
Total	<u>\$ 225,242</u>

### **3. TAX STATUS**

The Plan constitutes a qualified plan, exempt from income taxes under Puerto Rico income tax laws. The Plan has been amended since receiving the determination letter; however, the Sponsor and the plan administrator believe that the Plan is currently designed and operated in compliance with the applicable requirements of the Puerto Rico Treasury Department and the Plan and related trust continue to be tax-exempt. Therefore, no provision for income taxes has been included in the Plan's financial statements.

### **4. RELATED PARTY TRANSACTIONS**

Certain general and administrative expenses are paid by the Plan's Sponsor on behalf of the Plan. The amount by paid by the Sponsor on behalf of the plan for the year ended December 31, 2006 amounted to approximately \$17,000.

\* \* \* \* \*

## MICROSOFT PUERTO RICO, INC. 1165(e) SAVINGS PLAN

### SCHEDULE OF ASSETS (HELD AT END OF YEAR) (SCHEDULE H - PART IV - ITEM 4(i) ON FORM 5500) AS OF DECEMBER 31, 2006

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(a)	(b) Identity of Issuer, Borrower, Lessor, or Similar Party	(c) Description of Investment, Including Maturity Date, Rate of Interest, Collateral, and Par or Maturity Value	(d) Cost	(e) Current Value
*	Microsoft Corporation	Common stock	\$ 887,601	\$ 990,158
	Vanguard Windsor II Fund	Registered Investment Company	187,741	228,831
	Federated Trust U.S. Treasury Obligations Fund	Registered Investment Company	811,286	811,685
	Fidelity Advisor Growth Fund	Registered Investment Company	503,956	501,016
	Columbia Small Cap A Fund	Registered Investment Company	81,202	87,112
	Mutual Discovery A Fund	Registered Investment Company	121,811	164,456
	PIMCO Total Return Adm. Fund	Registered Investment Company	123,300	119,766
*	Banco Popular de Puerto Rico	Time deposits, bearing interest at 5.015% at December 31, 2006	<u>18,827</u>	<u>18,827</u>
	Total		<u>\$ 2,735,724</u>	<u>\$ 2,921,851</u>
*	Party-in-interest			



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## CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-109185 of Microsoft Corporation on Form S-8 of our report dated May 24, 2007, appearing in this Annual Report on Form 11-K of Microsoft Puerto Rico, Inc. 1165(e) Savings Plan for the year ended December 31, 2006.

*Deloitte & Touche LLP*

June 28, 2007

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